Vedanta – HZL H1 FY26 Earnings Summary

Amidst its demonstration that it cannot convert earnings to cash: Hindustan Zinc confirms it is also under investigation by Indian Regulators.

PLEASE SEE IMPORTANT DISCLAIMER ON PAGE 4

October 17, 2025 – This serves as a quick update from Viceroy ahead of HZL's earnings call.

1. HZL Q1 FY26 Financial Snapshot

HZL's H1 FY26 results reveal a business that is buckling under its promoter group's demand for unsustainable dividends. A quick look at the headline numbers shows where the money really went.

- **HZL's operational FCF failed to cover dividends during the half-year**, and the Company borrowed and sold assets to cover the shortfall. We estimate HZL's operational FCF shortfall in H1 FY26 to be ~ ₹1,300 crore ($150m).

Free Cash Flow Analysis	*Actual*	*Inferred*	*HZL Reported*		
USD $m	**HY 2026**	**Q1 2026**	**2025**	**2024**	**2023**
NPBT	6,527	2,985	13,464	10,343	15,297
D&A	1,795	913	3,634	3,466	3,264
Interest and other finance charges paid *	(518)	(240)	(1,225)	(1,029)	(287)
Interest received *	372	279	678	568	1,441
Working capital movements**	(1,382)	(787)	115	1,399	556
Income taxes paid	(1,372)	(751)	(3,376)	(1,757)	(3,140)
Other	-	-	373	(108)	(811)
Cash from operating activities	**5,422**	**2,399**	**13,663**	**12,882**	**16,320**
Less:					
Purchase of PPE & intangibles ***	(2,497)	(1,393)	(4,320)	(3,539)	(3,490)
Proceeds from disposal of PPE & intangibles	-	-	7	51	20
Viceroy Estimated FCF	**2,925**	**1,006**	**9,350**	**9,394**	**12,850**
Dividend paid****	(4,225)	(4,225)	(12,253)	(5,493)	(31,901)
Shortfall	**(1,300)**	**(3,219)**	**(2,903)**	**3,901**	**(19,051)**

Figure 1 – HZL Q2 FY26 Free Cash Flow Analysis

- HZL has tried to offset brand fee outflows and unaffordable dividends through selling down short-term investments and drawing down more debt. Its net debt has doubled to ₹4,400 crore ($500m) in 6 months.

Debt Analysis		*Hindustan Zinc*		
USD $m	**Q2 2026**	**2025**	**2024**	**2023**
Current interest bearing liabilities				
Borrowings	5,928	4,661	4,210	10,341
Operational buyers' credit/suppliers credit	905	569	399	307
Lease liabilities	186	136	88	21
Non-current interest bearing liabilities				
Borrowings	4,773	5,990	4,246	1,500
Lease liabilities	285	177	178	19
Gross interest bearing liabilities	**12,077**	**11,533**	**9,121**	**12,188**
Cash				
Cash & equivalents	91	94	51	59
ST Investments	7,839	9,148	9,874	9,850
Other bank balances				
Gross cash & short term investments	**7,930**	**9,242**	**9,925**	**9,909**
Net debt	**4,147**	**2,291**	**(804)**	**2,279**

Figure 2 – HZL Q2 FY26 Debt Analysis

- **Our FCF assumptions are generous to Vedanta.** They do not assume that interest costs will rise q/q, despite net debt has *increasing* by ~₹2,200 crore ($232m) so far this year.
- On the Q1 FY26 conference call, CFO Sandeep Modi boasted that HZL was generating ₹10,000 crore ($1.2b) in annualized free cash flow. The H1 FY26 FCF stands at <₹3,000 crore ($341m). This was clearly a lie.

- There is no deleveraging strategy at HZL.

2. Delays, Delays, Delays

HZL's management, who are appointed by VRL, maintained the status quo as habitual liars in the expectation of project completion. We note that 2 of the projects slated for completion this quarter have been predictably pushed back another quarter,

Project to Watch For the Next HZL Earnings Call	**Q1 FY26 Earnings Call**	**Q2 FY26 Earnings Call Update**
21 Ktpa Cell House Debottlenecking :Debottlenecking at Dariba Smelting Complex and Chanderiya Lead Zinc Smelter	Expected to be completed by 2Q FY26(we will complete **all our debottlenecking activities** in smelter well **before the scheduled timeline in quarter two** starting from August at Dariba followed by Chanderiya.)	Commissioned at Dariba in 2QFY26 Commissioning at Chanderiya is expected **by 3QFY26**

Figure 3 – Delayed HZL Projects

3. Under Investigation

HZL confirm that they (and likely Vedanta Limited) received inquiries from regulatory bodies prior and after September 30, 2025. Despite the Company's implication that the matter is closed as they have received no further communication, we believe an investigation is ongoing.

5)	Subsequent to June 30, 2025, a short seller had published reports alleging certain matters against some of the Vedanta Group entities including Hindustan Zinc Limited. Based on its assessment, management of the Company continues to believe that these allegations are baseless and that the transactions stated in the allegations have appropriate commercial substance and that the said transactions have been duly approved through necessary processes and the Company remains compliant with contractual obligations and applicable laws and regulations. During and subsequent to the quarter, required information sought by regulators have been duly provided, by the company and no further communication has been received thereafter. Accordingly, management believes that no adjustments are required to these consolidated financial results of the group for the quarter and six months ended September 30, 2025 or any prior periods with respect to the allegations in the short seller reports published till date.

Figure 4 – HZL Q2 FY26 Earnings Report

What Won’t be Addressed

These are the 3 pertinent topics that we believe Vedanta Resources (as a proxy for the apparently honorary management team at HZL) will avoid in today’s call:

1. No Discussion of Serentica

Not a single mention of HZL’s investment in Serentica, a promoter-owned energy venture structured as:

- A 30-year instrument
- With 0.0001% coupon
- No voting rights

This is not an investment; it is a transfer of shareholder capital into an Agarwal-owned black box. The cost-plus model guarantees profits for the promoter group. Management’s silence thus far shows they cannot justify this arrangement.

2. No Breakdown of Brand Fee Structure

While brand fees were defended conceptually, there was:

- No contractual disclosure
- No mention of services rendered
- No attempt to benchmark against global norms

HZL CEO Arun Misra claimed to have visibility on increases past FY27 wgen questioned about potential increases beyond 3% of turnover.

3. No Discussion of Dividend Sustainability

The ₹4,225 crore ($494m) Q1 dividend wiped out operating cash flow with HZL resorting to borrowing to fund it. Despite this:

- No commentary on why leverage was preferred
- No guidance on future payout ratios
- No framework for aligning dividends with internal cash generation

In Q1 FY26, management were able to give more guidance on future dividends than how it was going to fund them. We expect no different this quarter.

Attention: Whistleblowers

Viceroy encourage any parties with information pertaining to misconduct within Vedanta Resources, its affiliates, or any other entity to file a report with the appropriate regulatory body.

We also understand first-hand the retaliation whistleblowers sometimes face for championing these issues. Where possible, Viceroy is happy act as intermediaries in providing information to regulators and reporting information in the public interest in order to protect the identities of whistleblowers.

You can contact the Viceroy team via email on viceroy@viceroyresearch.com.

About Viceroy

Viceroy Research are an investigative financial research group. As global markets become increasingly opaque and complex – and traditional gatekeepers and safeguards often compromised – investors and shareholders are at greater risk than ever of being misled or uninformed by public companies and their promoters and sponsors. Our mission is to sift fact from fiction and encourage greater management accountability through transparency in reporting and disclosure by public companies and overall improve the quality of global capital markets.

Important Disclaimer – Please read before continuing

This report has been prepared for educational purposes only and expresses our opinions. This report and any statements made in connection with it are the authors' opinions, which have been based upon publicly available facts, field research, information, and analysis through our due diligence process, and are not statements of fact. All expressions of opinion are subject to change without notice, and we do not undertake to update or supplement any reports or any of the information, analysis and opinion contained in them. We believe that the publication of our opinions about public companies that we research is in the public interest. We are entitled to our opinions and to the right to express such opinions in a public forum. You can access any information or evidence cited in this report or that we relied on to write this report from information in the public domain.

To the best of our ability and belief, all information contained herein is accurate and reliable, and has been obtained from public sources we believe to be accurate and reliable, and who are not insiders or connected persons of the stock covered herein or who may otherwise owe any fiduciary duty or duty of confidentiality to the issuer. We have a good-faith belief in everything we write; however, all such information is presented "as is," without warranty of any kind – whether express or implied.

In no event will we be liable for any direct or indirect trading losses caused by any information available on this report. Think critically about our opinions and do your own research and analysis before making any investment decisions. We are not registered as an investment advisor in any jurisdiction. By downloading, reading or otherwise using this report, you agree to do your own research and due diligence before making any investment decision with respect to securities discussed herein, and by doing so, you represent to us that you have sufficient investment sophistication to critically assess the information, analysis and opinions in this report. You should seek the advice of a security professional regarding your stock transactions.

This document or any information herein should not be interpreted as an offer, a solicitation of an offer, invitation, marketing of services or products, advertisement, inducement, or representation of any kind, nor as investment advice or a recommendation to buy or sell any investment products or to make any type of investment, or as an opinion on the merits or otherwise of any particular investment or investment strategy.

Any examples or interpretations of investments and investment strategies or trade ideas are intended for illustrative and educational purposes only and are not indicative of the historical or future performance or the chances of success of any particular investment and/or strategy. As of the publication date of this report, you should assume that the authors have a direct or indirect interest/position in all stocks (and/or options, swaps, and other derivative securities related to the stock) and bonds covered herein, and therefore stand to realize monetary gains in the event that the price of either declines.

The authors may continue transacting directly and/or indirectly in the securities of issuers covered on this report for an indefinite period and may be long, short, or neutral at any time hereafter regardless of their initial recommendation.